

**MARICOPA COUNTY BOARD OF SUPERVISORS MINUTE BOOK**

**SPECIAL SESSION  
May 25, 2006**

The Board of Supervisors of Maricopa County Arizona convened in Special Session at 10:00 a.m., May 25, 2006, in the Board of Supervisors' Conference Room, 301 W. Jefferson, Phoenix, Arizona, with the following members present: Don Stapley, Chairman, District 2; Fulton Brock, Vice Chairman, District 1, Andrew Kunasek, District 3, Max W. Wilson, District 4 and Mary Rose Wilcox, District 5. Also present: Lori Pacini, Deputy Clerk of the Board; Shirley Million, Administrative Coordinator; Sandi Wilson, Deputy County Manager; Bruce White, Deputy County Attorney. Votes of the Members will be recorded as follows: aye-nay-absent-abstain.

**INTERNAL AUDIT PRESENTATION**

Item: Present the draft audit report findings on the Maricopa County Regional School District #509 to the Board of Supervisors as directed by the Board on December 7, 2005 (C0606027M00). (ADM3814-005)  
Ross Tate, County Auditor

Ross Tate presented a draft audit report on the Maricopa County Regional School District #509, which he reviewed with Members, saying that it includes the latest changes and updates and is nearly complete. He explained that the audit team identified 12 different issues:

- Procurement
- Contract Monitoring
- Accounts Payable
- Facilities Management
- Human Resources
- Payroll
- Conflict of Interest
- Fixed Assets
- Travel
- Cell Phones
- Governing Board
- Donations

He shared what he called "the highlights" but first gave a brief history of the large cash deficit that has been growing since FY2000 in the District's Maintenance and Operations Fund with Combined Funds also dropping into a deficit situation in 2004. He said the easy explanation for the deficit is the fact that the expenditures over the past five years have significantly exceeded the District's revenues. He explained that the Regional School District does not have the authority to levy a tax or issue bonds. This differentiates them from regular school districts that do have this authority.

He gave results of a comparison done between the District schools and benchmark school districts:

<b>CATEGORY</b>	<b>REGIONAL SCHOOL DISTRICT</b>
Administration costs	138% higher
Student services costs	85% higher
Other support services	33% higher
Classroom instruction	2% higher

**SPECIAL SESSION  
May 25, 2006**

Mr. Tate said that state law contains certain requirements to ensure the most open and competitive environment for procurement. There are procurement limits that are established; \$5,000 and up require 3 verbal quotes; \$15,000 and up require 3 written quotes; \$32,000 and higher should be done with a sealed bid process. The audit covers seven procurements in detail, among which it was found that documentation did not exist in many cases. The auditors found liability issues that could be problematic for the County, and that some contracts were unsigned or non-existent. They also found with RFP's the bidders had input as to what the RFP contained, their correspondence was used in creating the RFP. Often the bid did not go to the lowest responder or it went to a pre-selected vendor. He cited other problem areas of poor business practices with vendors.

Additionally there were nepotism issues with Superintendent Dowling and other District employees both in hiring and in vendor contracts and/or lack of contracts, with relatives. IRS 1099 forms were not consistently issued, many of which were for related parties.

He related the problems at the facility leased as a school site at Lone Cactus when the District made improvements without authorization from the owner resulting in a lawsuit that settled for \$211,000 with accumulated interest of an additional \$39,000 and legal fees of \$60,000.

Mr. Tate continued to relate conflicts of interest, poor business practices, weak control of operating functions and questionable Human Resource practices.

In summary he reported overspending, poor corporate practices, weak controls in operating functions and a significant amount of missing documentation to review. He also noted that there were lack of approvals on some district action documentation. He said the District had been briefed on the contents of the report and had asked that some things be changed. The District is preparing a rebuttal to the report.

Chairman Stapley asked Mr. Tate how long he has served as Maricopa County Auditor and how long he has been doing internal audits. He also asked him to rate this audit in terms of severity of issues.

Mr. Tate said he had been conducting audits for 22 years, first in private practice and has been the County Auditor for 12 years. He said he has done four or five audits that were this extensive in scope and that audits are difficult to compare. In responding to the Chairman's last question, he stated, "There are very significant issues here. I would say it's one of the more significant reports we have done as far as number of issues, the number of findings, how pervasive the control weaknesses are . . . Pretty much all of the areas we touched had significant control weaknesses there."

Chairman Stapley asked about the IRS 1099's that were not consistently issued to, "primarily related party vendors. What does that mean? Are you talking about family members?" Mr. Tate replied that the audit team had looked at a number of vendors and looked at the 1099's for a number of those, "We found that there were seven of those we looked at that had not been issued. Four of those were either family members," Chairman Stapley interjected, "Family members of the governing board?" Mr. Tate replied, "Of the governing board and other district staff."

Chairman Stapley asked Mr. Tate about the finding that the governing board, which is Dr. Dowling, missed one-third of the board meetings. "Is there no legal requirement that she attend those board meetings?" Mr. Tate said that was their customary practice and he didn't know what the legality of it is. He said, "There was a time when the District went back and openly ratified a lot of the actions that took

place when the governing board (Dr. Dowling) was not present, so I guess that they felt there was some need to legally ratify some of the actions that were taken.”

The Chairman asked about another item in the report, “The required financial reports not presented to the Board. Were those all ratified later?” Mr. Tate said he didn’t know if those needed to be ratified, “I think those were more of an informational presentation that might come before you and your staff. There was a requirement that it be done.”

Chairman Stapley, “But it wasn’t done.”

Mr. Tate, “It was not presented.”

Chairman Stapley thanked Mr. Tate for the summary of the audit findings and ascertained that the audit will be available to the public in electronic format in the near future. In response to a question from Supervisor Wilson, Chairman Stapley explained that the third item on today’s agenda is an action item reinforcing the County’s position that because of the egregious nature of the results of the audit the County cannot continue to fund these activities. Resolution #3, adopted by the Board on April 7, says that without an acceptable budget and IGA between the District and the County, the County would no longer fund the Accommodation School District beginning July 1, 2006.

**~ David Smith entered the meeting ~**

**OFFICE OF MANAGEMENT AND BUDGET PRESENTATION**

Item: Present a financial status/budget update on the Maricopa County Regional School District #509 to the Board of Supervisors. (ADM3814-003)

Sandi Wilson, Deputy County Manager  
LeeAnn Bohn, Budget Administrator

Sandi Wilson said that she and LeeAnn Bohn had spent a lot of time during the past 5 months trying to work with the Regional School District on their budget and had encountered difficulties in getting the necessary information. She said they had hoped to come to a successful budget conclusion with the District as is done yearly with County departments, but this had not been possible.

Ms. Wilson explained that she would give the history leading up to today’s action and Ms. Bohn would give the financial information of what they have seen as they processed District vouchers over the past five months. She distributed a handout of her slide presentation, which identified the District’s accumulated variance for the seven years, 2000 – 2006 as \$3,939,117. The accumulated County subsidy to the District for the same period was \$3,500,000. The District also received other funds from various government sources and from private donations.

On May 19, 2006, the District submitted a request for funding to cover \$6.75 million in accumulated operating deficits and debt. Ms. Wilson wrote a detailed response to Dr. Dowling at this time because the requested amounts were inconsistent with documented financial information on the budget items. Ms. Wilson commented on and explained each slide covering the following topics:

- Draft Report Issues
- Significant Cash Deficits

**MARICOPA COUNTY BOARD OF SUPERVISORS MINUTE BOOK**

**SPECIAL SESSION  
May 25, 2006**

- Reasons for Deficits
- District Costs Comparison
- Procurement Issues (4 slides)
- Vendor Performance Issues (2 slides)
- Accounts Payable Issues (2 slides)
- Abandoned Property Sale Issues
- Leasehold Improvement Issues
- Recruitment Issues
- Human Resource Issues
- Personnel Issues
- Payroll Issues
- Conflict of Interest Issues
- Governing Board
- Fixed Asset Issues
- Travel Issues
- Cell Phone Issues
- Donation Issues
- Summary Statements

LeeAnn Bohn reported on findings from the District's vouchers. She gave information on spending made from Donations for food and supplies for non-educational events. A comparison of the District's costs with other schools showed that the District's costs are significantly higher. The spending per student is 28% higher than the state average, "And it appears that those extra dollars are going to everything but classroom instruction." Scholastic achievement according to results of the AIMS Test in comparison to the State's average shows that 70% of the District's students fall below the mid-mark.

Sandi Wilson said that because of the preponderance and quality of information, "We are not going to be recommending a subsidy for the District for the 2006-07 school year" at this time. She added that the FY 2006-07 tentative budget was approved by the Board last Wednesday and she said they did not have enough information to evaluate the District properly now, "And the information that we have from the audit and from what we have gleaned from vouchers so far, just does not give any comfort in recommending that we continue to fund that school."

In conclusion, David Smith said that OMB has approached this with the same respect given to all elected officials in dealing with their budgets and have been prepared to enter into the same spirit of negotiations that we always do and come to an agreement. In this case what we're finding in the shifting requests and inability to pin down exactly what is being spent for what, and why; it leaves us all very unsettled. He said it is still the intent to provide the best educational services for the several hundred children involved, "And educational services will continue on and every child will be served." He added, "What is really at issue is the educational model that we're finding has flaws in it and needs repair."

**ACTION REGARDING MARICOPA COUNTY REGIONAL SCHOOL DISTRICT #509**

Item: Direct the County Manager to contact and communicate with the Superintendent of Schools and Regional School District personnel, as necessary, and undertake all necessary actions to facilitate compliance and implementation of the objectives of Resolution #3, previously adopted by the Board of Supervisors on April 7, 2006. (ADM3814-002)

**MARICOPA COUNTY BOARD OF SUPERVISORS MINUTE BOOK**

**SPECIAL SESSION  
May 25, 2006**

Chairman Stapley asked David Smith to comment. Mr. Smith referenced the Board's earlier resolution regarding the Accommodation School District and that there was an intention at that time not to provide funding for these services past July 1, 2006. Through this direction to the County Manager the Board is communicating directly with the Superintendent that the earlier resolution passed by the board will take effect beginning July 1, 2006, and that preparations should be made for making appropriate transitions and that the County is prepared to assist in that process.

Motion was made by Supervisor Brock and seconded by Supervisor Kunasek to direct the County Manager to take action as outlined above. Supervisor Kunasek remarked that "It should have been clear from the earlier resolution that we adopted, but to be redundant is probably in the best interest of the kids and the employees that are most certainly going to be affected here."

Supervisor Wilcox stated that it was a shock to all to hear these things. She said, "It hasn't been an easy decision but the conclusions reached by staff that document years of mismanagement, and the disturbingly disproportionate amount spent on administration and despite ample funding, students are not achieving, and that's probably one of the main points for all of us." She referenced the RFI findings showing that other school districts have expressed the desire to transition these students to schools that have far stronger performance records. She assured the public that the students will be taken care of through an extensive process that is still underway.

Chairman Stapley also referenced the difficulty of this decision "that was made based on fact and without any personal enmity." He said, "The sooner we make this decision the sooner the children will have the opportunity to receive a better education. The fact that the achievement levels are so low and the costs are so high for the administration is indicative of the problems this District has had traditionally and have been greatly enlarged in just the last few years. I can't continue to support a failing system." He expressed the hope that those who have succeeded in the District will find success elsewhere. He said the County will do everything possible to help this happen.

The motion carried unanimously (5-0).

**REGIONAL SCHOOL DISTRICT #509**

The Board of Supervisors, pursuant to its authority granted in A.R.S. §15-1001, will consider for approval vouchers presented by the County School Superintendent of Maricopa County to draw warrants on the County Treasurer against Maricopa County Regional School District #509 School District funds for necessary expenses against the school district and obligations incurred for value received in services as shown in the Vouchers. (ADM3814-003)

Motion was made by Supervisor Wilcox, seconded by Supervisor Kunasek, and unanimously carried (5-0) regarding action on the following vouchers:

Approve Voucher # 780-20060524	\$42,230.77
Approve Voucher # 5164	\$49,483.89

The Board of Supervisors may consider ratifying any Maricopa County Regional School District #509 vouchers and/or warrants approved in accordance with the procedures of A.R.S. §15-321 since the last meeting of the Board of Supervisors. The Board of Supervisors may hear staff reports on the vouchers

**MARICOPA COUNTY BOARD OF SUPERVISORS MINUTE BOOK**

**SPECIAL SESSION  
May 25, 2006**

and warrants being considered. The Vouchers are on file in the Maricopa County's Clerk of the Board's office and are retained in accordance with ASLAPR approved retention schedule. (ADM3814-003)

Motion was made by Supervisor Wilcox, seconded by Supervisor Kunasek, and unanimously carried (5-0) regarding action on the following vouchers:

Ratify Voucher # 5163	\$72,604.88
Ratify Voucher #124	\$159,074.07
Ratify Voucher #125	\$307,598.36

Staff may update the Board of Supervisors on regional schools operations and finances. (ADM3814-005)  
LeeAnn Bohn, Budget Administrator

No further reports were offered at this time.

**MEETING ADJOURNED**

There being no further business to come before the Board, the meeting was adjourned.

\_\_\_\_\_  
Don Stapley, Chairman of the Board

ATTEST:

\_\_\_\_\_  
Lori Pacini, Deputy Clerk of the Board